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PROVING A MARKET FOR A STARTUP BEFORE SCALING
USING THE HYPOTHESIS-DRIVEN ENTREPRENEURSHIP
PROCESS

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Abstract

The year is 2015 and the startup and tech business ecosphere has never seen more activity. In New York City alone, the tech startup industry is on track to amass \$8 billion dollars in total funding – the highest in 7 years (CB Insights, 2015). According to the Kauffman Index of Entrepreneurship (2015), this figure represents just 20% of the total funding in the United States. Thanks to platforms that link entrepreneurs with investors, there are simply more funding opportunities than ever, and funding can be initiated in a variety of ways (angel investors, venture capital firms, crowdfunding).

And yet, in spite of all this, according to Forbes Magazine (2015), nine of ten startups will fail. Because of the unpredictable nature of the modern tech industry, it is difficult to pinpoint exactly *why* 90% of startups fail – but the general consensus amongst top tech executives is that “startups make products that no one wants” (Fortune, 2014).

In 2011, author Eric Ries wrote a book called *The Lean Startup* in attempts to solve this all-too-familiar problem. It was in this book where he developed the framework for The Hypothesis-Driven Entrepreneurship Process, an iterative process that aims at proving a market before actually launching a product. Ries discusses concepts such as the Minimum Variable Product, the smallest set of activities necessary to disprove a hypothesis (or business model characteristic). Ries encourages acting briefly and often: if you are to fail, then fail fast.

In today’s fast-moving economy, an entrepreneur cannot afford to waste his own time, nor his customer’s time. The purpose of this thesis is to conduct an in-depth of analysis of Hypothesis-Driven Entrepreneurship Process, in order to test market viability of a real-life startup idea, ShowMeAround. This analysis will follow the scientific *Lean Startup* approach; for the purpose of developing a functional business model and business plan. The objective is to conclude with an investment-ready startup idea, backed by rigorous entrepreneurial study.

HDEP – Hypothesis-Driven Entrepreneurship Process

ShowMeAround – Private Tour Service Startup Idea

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Literature Review

In today's world of fast-moving business, the word "startup" is thrown around more than almost anything. But yet the defining characteristics of a startup are often interpreted in many ways - what, for example, differentiates a startup from a small business? In *The Lean Startup* (2011), Ries defines the term in a very rigid sense: a startup is an organization that is 1) dedicated to creating something new under 2) conditions of extreme uncertainty. This, however, is not always the case in today's startup ecosystem. Do new startup companies always offer new products, and is risk mitigation the biggest issue these companies face? If supposed startups cannot first define themselves on an objective basis, then too we cannot expect them to make key entrepreneurial decisions based on rigid *Lean Startup* definitions.

The lack of objectivity is an issue found not only in Ries' definitions, but also throughout the book. Indeed, the overlying concept of *The Lean Startup* is a loop cycle called validated learning: a concept of first determining a minimum viable product, then using it efficiently to gather as much information about customers as possible. The result of this Build-Measure-Learn loop is a decision to pivot or persevere: which is inherently a rigid business decision. Here, Ries contradicts himself: since he admits "there is no way to remove the human element – vision, intuition, judgment – from the practice of entrepreneurship, nor would that be desirable" (Ries, 2011). Entrepreneurs must keep in mind that any business venture involving extreme uncertainty must also involve the option of disregarding a rigid, clinical formula. The very existence of the validated learning cycle must also consider the possibility of ignoring it, in favor of sheer entrepreneurial intuition.

Ries does however approach the concept of innovation from both sides, admitting that innovation is for the most part unreasonable. He emphasizes the importance of making mistakes, and encourages an "early product that is terrible, full of bugs and crash-your-computer stability problems". He argues the initial customers are a critical part of the innovation equation – and are just as paramount as the inventors themselves. Perhaps this is what is meant by his concept of uncertainty – that at an early stage of a startup, a

working, well-defined product is not necessary for determining the correct market. In this sense, this is an effective way of looking at innovation, because it recognizes variables that are out of the innovator's control. Ries repeatedly says "stop wasting time", referring to the customer, not just the entrepreneur.

Proper implementation of the validated learning cycle from *The Lean Startup* should result in the definition of the startup's key customer problems. With these problems in mind, an entrepreneur may then want to look to the Business Model Canvas, a strategy template defined by Osterwalder and Pigneur in *Business Model Generation* (2010). The Business Model Canvas is visually pleasing and comprehensive at first glance. In one page, the canvas displays the nine building blocks of developing a new business model. But the sheer comprehensiveness of the canvas is also its pitfall. The Business Model Canvas fails to prioritize between its individual building blocks, and the result is an all-encompassing jumble that tries to accomplish too much at once.

The main problem lies with the "Value Proposition" segment of the canvas. This segment contains the fundamental elements of a business model: the problem, the solution, and the value proposition. By combining these three elements into one segment of the canvas, Osterwalder and Pigneur give the possibility of making a crucial mistake: confusing the problem with the value proposition, and confusing the value proposition with the solution. Committing this error would refute the purpose of the canvas, because it is imperative to understand the customer's problem before developing an effective business model.

In *Running Lean* (2012), author Ash Maurya expands upon Ries' initial concept of a lean startup and reinforces the notion of strategic planning to avoid wasting time, for both the startup and the customer. Compared to the other two texts, *Running Lean* is more succinct, actionable, and to the point. His approach focuses heavily on the market problem, stressing the importance of the proper product/market fit. Notably, Maurya directly borrows from Osterwaldt and Pigneur's Business Model Canvas, creating his own "Lean Canvas". In today's startup environment, Maurya's Lean Canvas is the more applicable and refined canvas approach.

In the Lean Canvas, each of the three core elements (problem, solution, value proposition) is divided into its own segment. This is important because it allows an entrepreneur to assess each aspect independently. By doing so, hypotheses can be formulated and tested for each core element, augmenting the capacity of Ries' original Build-Measure-Learn loop cycle. All in all, the Lean Canvas is more applicable because it directly maximizes the entrepreneur's ability to make decisions. The Lean Canvas also rightfully stresses the most basic purpose of startup entrepreneurship: solving a market problem.

From Ries to Osterwaldt & Pigneur to Maurya, these entrepreneurship authors seem to build upon the thoughts of their predecessors, while refining their most central conclusions. Eisenmann continues this trend in his Harvard Business Case *Business Model Analysis for Entrepreneurs* (2014), offering his own take on the business model canvas. He solidifies the building blocks of a business model to just four segments, and in doing so, challenges the thinking of the other authors. In the Profit Formula segment for example, Eisenmann argues that an entrepreneur should not maximize business model decisions, but rather minimize them using innovation accounting principles.

Eisenmann's all-encompassing analysis of the modern lean startup can be found in *Hypothesis-Driven Entrepreneurship* (2013), where he works with Dillard and Ries himself. Here their collaboration comes full circle as Eisenmann directly combines the Build-Measure-Learn cycle with the business model canvas. It is the briefest of the five texts, but it is also the most practical, directly relating to the real-life example of tech giant Dropbox.

Eisenmann structures his argument for a lean startup in the most effective way in *Business Model Analysis for Entrepreneurs* and *Hypothesis-Driven Entrepreneurship* because he is able to borrow from each of the three other authors, while summarizing their points adequately. His case studies most directly contribute to the objective of this study, which is to prove market viability for the startup ShowMeAround before scaling.

Hypothesis-Driven Entrepreneurship Process

The Hypothesis-Driven Entrepreneurship Process (HDEP) is a way for entrepreneurs to test the viability of a business model or a product before launching (see Appendix I). In the modern context of startups, time is inarguably an entrepreneur's scarcest resource (Eisenmann, 2013), and thus should be prioritized over any other factor. By using the six-step process, an entrepreneur can accelerate the tempo of innovation by relying on rapid iteration, small batches and short cycle times (Blank, 2015). The defining element of the HDEP is that it is conducted in a succinct manner – Eisenmann (2013) emphasizes that an entrepreneur must avoid over-investing in detailed analysis. Rather, proper HDEP testing involves quickly executed tests of key business model or product characteristics.

An effective use of the HDEP begins with a vision and ends with a decision to scale the business. The idea for ShowMeAround came after traveling through Normandie, France. My friends and I were enjoying the city: its beautiful streets, landmarks and restaurants that had been recommended to us by a hostel worker. But we soon realized the experience was just that: recommendations. Although they came from a real person, our experience was still highly touristic, and nothing compared to a night out with my Portuguese friends in Lisbon. I was determined to prove that somewhere in Normandie, there was a local resident who wanted to share an afternoon with tourists.

Vision #1: Connect Tourist with Local.

Following the HDEP, the vision was then taken and translated into a pair of falsifiable hypotheses. The most optimal hypotheses are based off of major business model elements (Ries, 2011). For this reason, Eisenmann's *Business Model Analysis* was referenced, and a hypothesis was developed specifically from the first quadrant: Customer Value Proposition. The questions posed in this business model element seem to further the preliminary vision, helping to answer *how* we may can connect the tourist with the local. Defining a set of falsifiable hypotheses at this stage is crucial because of the optimism bias – which reflects our systematic tendency to overestimate the likelihood of positive events (Eisenmann, 2013).

The selected falsifiable hypotheses are dependent upon the Minimum Variable Product (MVP), which is used to test it. An MVP is a product which has just the minimum amount of features required to ship a product to early adopters (Blank, 2015). Users of similar services are most likely to be early adopters of ShowMeAround, and therefore, can provide the most relevant data (Ries, 2011). For this reason, a targeted audience market survey for previous users of Airbnb was prepared as the MVP. All things considered, Airbnb is the largest and most relevant company already conducting the preliminary vision of connecting a tourist with a local. Finding ourselves in the same space as Airbnb, next we had to consider product features that Airbnb currently don't offer when connecting a tourist with a local. 2 major things were identified as missing from Airbnb's current model. These 2 things helped to determine the structure and objectives of the market survey, and also serve as 2 major pivot points for the ShowMeAround vision:

- 1) Airbnb doesn't align the "right" host for the "right" tourist
- 2) Airbnb doesn't have private tour offerings as supplements to bookings

Since Eisenmann (2013) argues that time is an entrepreneur's most valuable resource, one can then conclude that the more minimum or "bare" the MVP, the more time savings. The market survey (see Appendix II for survey and Appendix III for survey analysis) contains 25 total questions, 20 of which are most relevant to the overall findings. These 20 questions as either Type A or Type B, 10 for each of those 2 determined unmet needs. The hypotheses were set as follows: if the market interest was significant enough (an average equal to or higher than 6.0 from the survey results), then the hypotheses would be validated that there is market interest for that particular unmet need. And thus the original vision to "Connect the Local with the Tourist" would be adjusted, 0, 1, or 2 times.

Hypothesis #1: I believe that on a 1-10 ranking scale, survey results for the 10 Type A questions will surpass an accumulated average of 6.0.

MVP #1: Survey – 10 Type A questions

Hypothesis #2: I believe that on a 1-10 ranking scale, survey results for the 10 Type B questions will surpass an accumulated average of 6.0.

MVP #2: Survey – 10 Type B questions

The market survey was prepared in such a way that the Type A questions would not be confused with Type B. The survey was administered through Google Forms and posted on Facebook and other outlets, with the constraints being that a respondent must be at least 18 years old and have used Airbnb at least once. The objective of the MVP was to see if Airbnb's Customer Value Proposition could be expanded upon. According to Harvard Business Review (2015), the ideal MVP sells an idea, not the product itself.

The survey findings demonstrate that the Type A questions garnered higher market interest on average than Type B questions, confirming Hypothesis #1 but rejecting Hypothesis #2 (See Appendix III, Survey Analysis).

Type A Questions Average = 6.35

Hypothesis Confirmed

Type B Questions Average = 5.80

Hypothesis Rejected

Type A questions aimed at better linking the tourist with the local through the use of social media sparked some interest. For example, respondents agreed that in general they found communication before the planned trip to be important – Question 6 (6.62 average) and Question 11 (6.55 average) both addressed this market need. However, the ability to communicate with other guests did not appear important to users (Question 13 – 5.34 average), nor did remaining in contact with the host (Question 18 – 4.13 average).

Questions involving engagement with the host varied. For example, in Question 14, it was shown that interaction within the host's home proved invaluable (an average of 8.17), but in Question 16, the host joining the tourist on a sightseeing activity was shown as less than desirable (an average of 4). A more casual activity, such as going for a coffee

or a drink showed slightly higher interest in Question 15 (5.04), but the defining factor of this set of questions seemed to relate to the host's expertise of the city. In Question 17, consumers seem to agree that extensively knowing "secrets" about the city (an average of 6.94) was important to them.

According to Eisenmann (2013), an entrepreneur may choose to pivot along one or more major business model elements after validating a hypothesis. For ShowMeAround, the decision was made to pivot to a new customer value proposition by changing its feature set. As the Hypothesis from Type A questions was validated, the Vision was changed accordingly:

Vision #2: Connect the "Right" Tourist with the "Right" Local

This new vision is to be implemented in a number of ways. First, ShowMeAround will have a heavy focus on social media platforms. When registering an account on ShowMeAround, a Facebook account is required, although linking more social media accounts is encouraged so as to find the optimal guide for the tourist.

ShowMeAround software will scan the social media profiles of both the tourists and guides with scrutiny, looking for common ground between the two parties. In this way, when a tourist selects a city he wishes to visit, ShowMeAround will instantly suggest a guide tailored to their individual tastes and interests.

Additionally, ShowMeAround will serve as its own social network for travelers – making it easy as possible to see other tourists similar to them. Communication across these platforms will be easier than it is on Airbnb – tourists can communicate with potential guides without requesting to book.

Conducting the HDEP at an early stage before starting on the business plan and business model was crucial because it allowed us to further the entrepreneurial vision as effectively as possible for ShowMeAround, per unit of resources expended.

The HDEP is to be continued throughout Year 1 of operations before scaling at the global level.

Business Model

The final business model canvas was based on the updated version of Maurya's Lean Canvas from *Business Model Analysis for Entrepreneurs* (Eisenmann, 2014). See Appendix IV for Eisenmann's business model mockup.

VALUE CREATION (CUSTOMER VALUE PROPOSITION)	VALUE DELIVERY (TECHNOLOGY & OPERATIONS)
<p>Customers: Two groups: Guides and Tourists. The business is B2C, and is a need to incentivize both parties.</p> <p>Problem [Tourists]: Tourists don't know 'cool and local' things to do when visiting a city, besides popular tourist traps. It's hard for solo travelers to meet locals when visiting cities because they are there for short periods of time. Common walking tours have a lack of tour customization and physical human contact.</p> <p>Problem [Guides]: Locals are passionate about their city, but don't have an outlet to share the secrets they know. Guides may also have a desire to share their expertise with others. Being a Guide can serve as a way to make money.</p> <p>Common Solution: Locals who are experts in certain parts of their cities can offer a personalized travel guide experience to tourists for a fee.</p> <p>Price: Guides set their own prices; we collect 10% of the paid fee (Airbnb Model).</p>	<p>Our business: <i>Customer Relationship Management</i>. The goal is to increase the scope of customers (Guides and Tourists), rather than scaling operations through infrastructure management or commercializing innovative products in the market.</p> <p>Sales. We will target the world's best guides via directed research and build an extensive guide network pre-launch in targeted cities:</p> <ul style="list-style-type: none"> -2017: Los Angeles, NYC -2018: London, Paris, Berlin -2019: Tokyo, Seoul, Shanghai <p>In-house: The website/app development (hire development engineer(s)) + proprietary IP</p> <p>Outsourced: Storage of the app and its data (App Store and Google Play) + data center (Amazon Web Services) + payment system (Braintree Payments)</p>
VALUE ACCESS (GO-TO-MARKET)	VALUE CAPTURE (PROFIT FORMULA)
<p>Demand generation: a) Promotional Launches + b) Online marketing (Display advertising, Social media marketing) c) Word of mouth d) Referral program both for guides to guides & tourists to tourists:</p> <ul style="list-style-type: none"> - For Tourists: Get a free tour for each new Tourist successfully referred to enroll in the platform/app. For the first 2 tours made through the referral, they receive credit for a free tour in any city. - For Guides: Get a free tour for each new Guide successfully referred to enroll in our platform/ap.: For the first 5 tours made through the referral, they receive credit for a free tour in any city. <p>Distribution channels: Own platforms (website & app) + Partnerships in the long term (discounts for people traveling with certain airlines, travel agencies, etc.)</p>	<p>Monetization: 10% of the paid fee</p> <p>Expected Average Revenue per Transaction: Average tour prices are anywhere from \$12.73 to \$40 depending on Consumer Price Index figures for cities across the world. Average Revenue for ShowMeAround would be \$1.27-\$4 per transaction.</p> <p>Growth rates: Growing tourism market. Worldwide arrivals market expected to grow at over 4% over the next 5 years.</p> <p>Relevant variable costs: Fee to the payment system company (Braintree: 2.9% + \$0.30 per transaction after sales of \$50k)</p> <p>Relevant fixed costs: App and platform development costs (Wages) + Data center storage costs</p>

Business Plan

A) Industry, Competitor, and Customer Analysis

International tourism is a promising industry that is trending upwards. In 2000, global international tourism revenues totaled \$475 billion. This number almost tripled to \$1.245 trillion by 2014 (Statista, 2015). In today's globalized world, it is becoming easier to travel abroad, which explains the continued growth of the tourism industry. According to the United Nations World Tourism Organization (UNWTO), modern tourism is closely linked to development and is a key driver for socio-economic progress (World Tourism Organization, 2015).

Over 1.1 billion tourists traveled abroad in 2014, a 4.7% increase from the previous year (World Tourism Organization, 2015). UNWTO forecasts suggest that this number will continue to increase – tourism has been a strong and resilient sector largely unaffected by, for example, the recent European debt crisis. As technology continues to develop in the modern globalized world, one can assume that tourism-related platforms will continue to expand.

Porter's 5 Forces

1) Industry Rivalry: *Low*

The private tour industry is a relatively new concept, especially for SaaS (Software as a Service) companies. A small number of firms (See Competitor Profile: Appendix V) hold a large market share, while freelance tourism experts occupy the rest. Looking only at direct competition – private tour services – the industry is for the most part concentrated, suggesting a low level of competition.

2) Bargaining Power of Suppliers: *Medium*

The bargaining power of the suppliers (the Guides) is moderate due to their ability to use other platforms for their tour services. Competitors such as Viator and Vayable already have established apps with a network of tour guides. However, as entrants to the private

tour industry, ShowMeAround has the ability to cannibalize the market – a unique advantage where we can literally pluck potential Guides from our competitors and entice them to post their tour services on our own platform.

3) Bargaining Power of Buyers: *High*

The bargaining power of buyers (the Tourists) is significant due to the constant number of new tourists in a city. The buyers also have cheap switching costs; a Tourist may simply choose to take a tour offered to them in a hostel or hotel where they are staying. Additionally, a Tourist's limited amount of time staying in a city increases their bargaining power.

4) Threat of New Entrants: *Medium*

The threat of new entrants is medium when considering the power of new entrants to the tourism market. As there are a small number of other SaaS companies in this space, the ease of entering this market within the tech industry is considerable. However, tourism is a traditional industry and entrants must recognize they have to compete with local businesses outside of the tech space.

5) Threat of Substitutes: *High*

The threat of substitutes is substantial, especially considering that major market competitor Airbnb dominates the landscape across a different industry (accommodation). Additionally, competitors Couchsurfing fill the same unmet need of the consumer as a free service. Because of the high threat of substitutes, the Customer Value Proposition feature set should be specifically differentiated from substitute competitors. See Appendix VI for a full Substitute Profile.

B) Company and Product Description

ShowMeAround is a Personalized Tour Guide service.

- The Airbnb of Tours
- Cool things to do in new cities
- Meet new and local people
- Unique interests of the traveler + interpersonal connection



Vision: Connecting the world's best guides with the travelers of the world.

New Vision: Connecting the world's travelers with the right guides.

Market Problem: Tourists fall into “tourist traps” when they travel.

Key selling point: the scalability of the business idea, and the opportunity. The idea exists (main competitor is Viator), but the concept is not yet commercial, nor widely accepted like Airbnb. Additionally, Viator focuses primarily on the tour offering rather than the interpersonal profile of the tour guide.

Unlike a Google search, or mobile walking tour apps like PocketGuide, **ShowMeAround** provides physical connections with locals who know the ins and outs of their city.

A **ShowMeAround** tour is personalized to the tourist. Travelers can read through ratings, and choose the right guide for them (Nightlife Experts, Hidden Secrets Experts, Wine Experts, Historical Sites Experts, etc.). Guides are suggested to tourists based on preferences and settings on their social media accounts.

ShowMeAround provides an outlet for locals who are passionate about their city and want to show its secrets to others – and pays them for their services.

ShowMeAround will have both a web-based platform as well as a mobile app for iOS and Android. When registering for the app, a Facebook account is required. This is to help with the personalization and customization offerings provided by the app – when a user enters the ShowMeAround network, any social media accounts linked to their account are automatically scanned to help suggest guides specifically for the tourist.

C) Marketing Plan

The best way to summarize the ShowMeAround Marketing Plan is a four-part Digital Marketing strategy.

- 1) **City Breakdown** - Based around Airbnb's "Neighborhood Guide" concept, which breaks down the major characteristics of a city's neighborhoods. The **City Breakdown** feature will, in one webpage, highlight the top things to do for a particular city and briefly tell the user what the city is known for (Photography, surfing, bar culture). The **City Breakdown** feature will not reveal specific "tour secrets" guides may include in their tours.
- 2) **Testimonials** – Highest rated reviews from already completed tours in each city. This will also include "Featured Guides" in each city.
- 3) **Social Media** – Special discounts, partnerships. ShowMeAround will leverage social media channels Instagram, Youtube, Twitter, Facebook to further promote content.
- 4) **Connection** – Similar to Airbnb's "Social Connections" feature, users of ShowMeAround can sync their Facebook accounts with their ShowMeAround accounts, giving them information of a user's friends activity on ShowMeAround. This is a modern approach to the traditional word-of-mouth marketing.

Market Segmentation – ShowMeAround's users are divided in two market segmentations, the guides and tourists.

-Guides: People who are experts of their city or of a particular tour craft. They have various motives: money, passion, pride.

-Tourists: The people who want to learn from the guides - whether it is about the city itself or a particular skill in which the Guide is an expert.

Demand Generation & Proof of Concept – Promotional Launches

Promotional Launches	
January 2017	Los Angeles
July 2017	New York City
January 2018	London
January 2018	Paris
January 2018	Berlin
January 2019	Tokyo
January 2019	Seoul
January 2019	Shanghai

ShowMeAround will demonstrate its proof of concept through an extensive promotional launch campaign in the greater Los Angeles area. The 12-month Promotional Launch will serve three major purposes: to 1) create a network of serviceable Guides, 2) raise preliminary demand for private tours, and 3) raise brand awareness for ShowMeAround. It is believed that if enough money is put into the Beta Launch, the major problems of the network effect can be counteracted. A majority of the marketing budget for each year will be spent on Promotional Launches.

At the end of Month 6, a Promotional Launch for New York City will be put into effect. At the end of Year 1, the decision will be made then to scale to other major cities (at the international scale) at a rapid rate. At the beginning of Year 2, Promotional Launches will be conducted for London, Paris, and Berlin, which are the three most visited cities in Europe by number of bednights stayed (TravelDailyNews, 2013). In Year 3, as ShowMeAround expands to Asia and Australia, Promotional Launches will be conducted for Tokyo, Seoul, and Shanghai.

Standard criteria were set for a Guide: a ShowMeAround Guide must be at least 18 years old, with demonstrable competence in a certain skill or activity classified as a tour. According to Los Angeles age demographic data, 76.14% of the population is age 18 years and over (AreaConnect). Extrapolating this percentage to the Greater Los Angeles

population of 18.55 million people, this means that there are about 14,123,970 eligible 18+ year olds. We estimate that through our Beta Launch, we will be able to hire people from this pool at a 1/10,000 rate, translating to 1,412 guides ready at Beta Launch. Estimations for the top 100 most populous metropolitan areas between USA, Canada and Europe can be found in Appendix VIII.

In a Promotional Launch, ShowMeAround will cover the costs of the first two private tours for each guide. The purpose of this is to provide the preliminary guide network with their first reviews, as well as to garner market demand for the private tour service. Although ultimately the Tourist segment will have many more customers, the Guide segment is the true cornerstone of the ShowMeAround business. When considering SaaS metrics such as Cost of Customer Acquisition, the Guide is the more relevant customer segment to consider; without a Guide there is no paying Tourist.

Cost of Customer Acquisition

	Guides at Month 1	Guides at Month 12	New Guides	New Customers Acquired	Promo Costs	CAC
Los Angeles	1412	1575	163	11,736	\$84,268.16	\$7.18
New York City	1482	1653	171	12,342	\$113,906.52	\$9.23
London	1079	1204	125	8,986	\$60,100.30	\$6.69
Paris	923	1030	107	7,687	\$44,987.02	\$5.85
Berlin	385	430	45	3,206	\$16,316.30	\$5.09
Tokyo	1161	1295	134	9,665	\$92,846.14	\$9.61
Seoul	698	779	81	5,813	\$45,466.24	\$7.82
Shanghai	571	637	66	4,758	\$32,867.20	\$6.91

For a startup, determining the Cost of Customer Acquisition (CAC) is important for a number of reasons. First, it forces us to estimate how much money we can anticipate spending on Sales & Marketing expenses in order to attract new customers. For this, we focused on cities with Promotional Launches. First, we extrapolated metropolitan population figures to estimate a number of guides ready at launch in each city (see City Forecasts, Appendix VIII). Then, using Consumer Price Index data collected from Numbeo¹, tour price averages were estimated for each city. Promotional Launch costs were estimated by multiplying the number of estimated guides by two times the tour price

¹ Numbeo. Numbeo Cost of Living Index. http://www.numbeo.com/cost-of-living/rankings_by_country.jsp?title=2015-mid®ion=150 (accessed December 14,

average (to account for the costs of 2 free tours for each guide).

Another reason CAC is important is because it forces us to make assumptions on how many new customers we can expect to acquire. Based on the assumptions already made, we expect ShowMeAround Guides to average 6 tours a month (for a full list of Assumptions, see Section G of the Business Plan). Accounting for an entire year of tours, each guide can provide up to 84 new customers. Additionally, we expect to expand our network of Guides at a 1% rate during the Promotional Launch periods.

The result was a different CAC figure for each city. These numbers are consistent with Consumer Price Index figures for each city, meaning that we can expect to spend more on Sales & Marketing expenditures in cities where we expect the consumers to pay more for tours. Admittedly, CAC is a business metric that will change sporadically for a business after scaling. Still, it is strongly advised to visualize these costs and potential revenues before scaling, in order to help prepare the company for growth (ForEntrepreneurs, 2015).

D) Operations Plan & Timeline

The operations strategy for ShowMeAround will be based around 2 major concepts: Customer Relationship Management and Sales.

CRM: As the product is run entirely by the 2 market segments, Guides and Tourists, Customer Relationship Management is crucial in overseeing the scope of customers from both segments.

Sales: To keep operations running, Sales is important in attracting new Guides well as potential Tourists.

As previously noted, ShowMeAround will continue to implement HDEP testing throughout Year 1 of Operations, focusing only on the Los Angeles and New York City areas before scaling to the global level starting in Year 2. The purpose of this is to gain as much insight as possible from our customers while we focus on improving our product.

Timeline:

Months 1-6: Los Angeles Promotional Launch
Months 7-12: New York City Promotional Launch
Year 2: London/Paris/Berlin Promotional Launch, Scale to USA/Canada/Europe
Year 3: Tokyo/Seoul/Shanghai Promotional Launch, Scale to Asia/Australia

E) Team

To start, the ShowMeAround team will have 4 members – 2 cofounders (a CEO and CTO), each with a tech assistant and a sales assistant.

CEO – Marko Zyznewsky. BSc, Finance, Pennsylvania State University 2012. MSc, Management, Nova School of Business & Economics 2016. 2 years of international work experience, trilingual (English/Spanish/Portuguese), cultured traveler.

Sales Executive – The Sales Executive will be the direct subordinate to the CEO and will be the primary person in charge of business development and account management (point of sales tracking).

CTO – Victor Gdalevich. BSc, Information Technology, Pennsylvania State University 2012. 3+ years of experience in IT/programming in the New York City startup ecosphere. Bilingual (Russian/English), cultured traveler.

Associate Engineer – The Associate Engineer will be the direct subordinate to the CTO and will oversee tech-related work.

F) Critical Risks & Exit Strategy

Compensation fund: There is a need to provide customers (both guides and tourists) with a safe and trustworthy environment to use the service. For this reason, a significant monetary fund will be created in order to guarantee both types of customers that they will be compensated in the unlikely event that anything goes wrong.

Refund policy: A strict refund policy will be set for the business. Once again, its highly interpersonal and subjective character could lead to some unfair charges being raised against the firm in order to try to evade the payment of its correspondent fee. Therefore, rigid limits will be defined for the refund of the amount that a customer pays.

Corporate behavior of traditional companies: Such as in other business sectors (see recent case: Uber vs. taxi industry), traditional tour companies may try to disturb ShowMeAround's activity by attempting to disrupt the market. This operational context poses a threat but is unlikely to affect the business' profitability.

Exit Strategy

Keeping in mind the uncertain nature of the modern startup ecosystem, an exit strategy for ShowMeAround must be developed from the start. The predicted and most ideal exit is by acquisition, for example by a competitor or larger company in the tourism industry (Airbnb, TripAdvisor).

In order to maximize value for the eventual acquirer, ShowMeAround aims to differentiate itself with an effective and proven business model. ShowMeAround can increase its attractiveness by creating intellectual property and brand value. Combined with predicted consolidated revenues by Year 3 (**\$4,123,238.94**) the goal is to amass a considerable valuation at acquisition time.

G) Financial Offering & Assumptions

Total Startup Costs: \$500,000

Equity offering: 25%-30% at an IRR of 92%

Total startup costs of \$500,000 (See Appendix VII for a complete list of startup costs) are necessary in order to launch the business and pay for costs in the first year of operations. This number was determined after preparing Sales Forecasts for Years 1-3 (see Appendix IX), Profit & Loss Statements for Years 1-3 (See Appendix X), and Free Cash Flows for Years 1-3 (See Appendix XI). It is crucial that a seed funding of at least \$500,000 is raised due to projected negative cash flows in the first 6 months of operations (See Appendix XII for a chart of Monthly Cash Flows from Year 1).

To fund our venture, we aim to target the angel investor network in the United States, ideally in the Silicon Valley or Silicon Beach (Los Angeles) areas. We hope to fund the business entirely with equity and are prepared to give up to 30% in stock equity of ShowMeAround. Based on Free Cash Flow projections from Years 1-3, we can promise investors an IRR of 92% on their investment.

Assumptions

Number of Guides, Hiring Rates, and Guide Criteria

In American/European cities where we implement our Promotional Launch, we expect to hire Guides at a 1/10,000 rate. In American and European cities without a Promotional Launch, we believe we will be able to hire Guides at a 1/25,000 rate. In Asian and Australian cities we expect to hire at a 1/25,000 rate in our Promotional Launch cities and a 1/50,000 rate for the other cities. These rates are based on metropolitan area population figures and guide criteria for each city: people 18 years and older. Specific age demographics were gathered for Promotional Launch cities, and national age demographics were applied for the rest of the cities. Complete forecasts for cities can be seen in Appendix VIII.

Guide Expansion and Number of Tours Growth

We believe that in cities where we conduct our Promotional Launch, the total number of Guides will increase by 1% each month for the first year. This is due to the network effect and an anticipated increase in brand awareness from targeted marketing expenditures. This figure also takes into account Guides who decide to leave ShowMeAround. Additionally, we believe that each ShowMeAround Guide will average 1.5 tours per week (6 tours per month).

Tour Average \$

Because tour prices are largely dependent on the city's cost of living, a spreadsheet was prepared for the 50 largest metropolitan areas in USA/Canada, as well as the 50 largest metropolitan areas in Europe and the 50 largest metropolitan areas in Asia/Australia. These figures (see Appendix VIII) are based on an assumed \$40 tour average price for the most expensive cities in USA and Europe (San Francisco and Zurich). Tour price averages were then calculated for each city using Consumer Price Index data from Numbeo. Population figures were also gathered for USA & Canada², Europe³, and Asia & Australia⁴.

² US Census. US Census Bureau. <http://www.census.gov/> (accessed December 14, 2015).

³ EuroStat. European Commission. <http://ec.europa.eu/eurostat> (accessed December 14, 2015).

⁴ Demographia. Demographia. <http://www.demographia.com/db-world-metro2000.htm> (accessed December 14, 2015).

Conclusion

By utilizing the HDEP, an entrepreneur can present a more justifiable and investment-ready business plan to potential investors. In this thesis, the application of the HDEP broadened the vision of the ShowMeAround business idea, changing major business model elements such as the Customer Value Proposition and the feature set of the product. The MVP testing gave insight to product features prioritized by future customers before launching an actual product or spending any capital.

The most crucial lesson learned from the texts is that a company shouldn't scale until they have achieved product-market fit. Premature scaling shortens a venture's runway and thus the number of build-measure learn cycles its team can complete (Eisenmann, 2013). Y Combinator founder Paul Graham said it best: "the slower you burn through your funding, the more time you have to learn" (Graham, 2015). This is the essence of the lean startup ideology; launching and managing a startup is a long and cyclical process. No matter how many times a vision is pivoted before launch, true success and viability of a business model cannot be accurately measured until after *years* of operation and adhering to the HDEP. MVP testing and the HDEP are intended to continue throughout the life cycle of a startup. This is the reality of the modern day startup: an entrepreneur must test MVPS fast, launch fast, fail fast, and most importantly: learn fast.

An entrepreneur should look to the success stories of tech giants Facebook, Youtube, and Twitter to truly understand the significance of the HDEP. All three companies launched with, at best, questionable monetization models. All three companies endured years of tinkering with business models, countless MVP testing and pivoting before finding the right way to leverage their massive userbases. Eisenmann (2013) notes that in startups where network effects and user interactions are paramount, sometimes it is best to defer monetization for strategic purposes. In the case of ShowMeAround, it is important to keep this in mind – product-market fit first, monetization later. Snapchat launched in 2011 and is already valued at \$16 billion, even though they have yet to set a monetization model. This is the fascinating success story of the modern startup: a billion dollar company still in the midst of HDEP testing.

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